Supporting Statement for
Financial Statements filed by Bank Holding Companies
(FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9SP, FR Y-9CS and FR Y-9ES; OMB No. 7100-0128)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension, the following mandatory reports (OMB No. 7100-0128), effective with the March 2003 reporting date:

(1) the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C),

(2) the Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP),

(3) the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP),

This family of reports (OMB No. 7100-0128) also contains the following reports, which are not being revised:

(1) the Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES), and

(2) the Supplement to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9CS).

Pursuant to the Bank Holding Company Act of 1956 (BHC Act), as amended, the Federal Reserve requires bank holding companies (BHCs) to provide standardized financial statements to fulfill the Federal Reserve's statutory obligation to supervise these organizations. BHCs file the FR Y-9C and FR Y-9LP quarterly, the FR Y-9SP semiannually, the FR Y-9ES annually, and the FR Y-9CS on an as-needed basis.

Many of the proposed reporting revisions that pertain to the FR Y-9C are being requested to parallel revisions to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No.7100-0036). The Federal Reserve also request latitude to modify proposed revisions to the FR Y-9 reports consistent with any modified revisions to the Call Report ultimately adopted by the FFIEC for implementation in 2003. Copies of the proposed reporting forms, marked to show the revisions, are provided in the attachment. The total current annual burden for the FR Y-9 family of reports is estimated to be 337,290 hours. The overall reporting burden is estimated to increase by 12,510 hours with these revisions.

Justification

The FR Y-9 series of reports (FR Y-9C, FR Y-9LP, and FR Y-9SP) are standardized financial statements for the consolidated BHC and its parent. The FR Y-9ES, effective for December 31, 2002, is filed annually by BHCs that are Employee Stock Ownership Plans (ESOPs) that previously submitted either the FR Y-9LP or the FR Y-9SP reports. The Federal Reserve also has the authority to collect the FR Y-9CS, a free-form supplement that may be utilized to collect any additional information deemed to be critical and needed in an expedited manner. The FR Y-9 reports historically have been, and continue to be, the primary source of financial information on BHCs between on-site inspections. Financial information from these reports is used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate BHC mergers and acquisitions, and to analyze a BHC's overall financial condition to ensure safe and sound operations.

In addition to providing information used in the supervision of BHCs, the FR Y-9 series of reports provide essential information to assist the Federal Reserve in the formulation of regulations and supervisory policies. The reports are also used by the Federal Reserve to respond to requests from Congress and the public for information on BHCs and their nonbank subsidiaries.

Description of the Information Collection

FR Y-9C

The FR Y-9C consists of standardized financial statements similar to the Call Report filed by commercial banks. The FR Y-9C collects consolidated data from the BHC. The FR Y-9C is currently filed by top-tier BHCs with total consolidated assets of $150 million or more[1] and lower-tier BHCs that have total consolidated assets of $1 billion or more. In addition, multibank holding companies with total consolidated assets of less than $150 million with debt outstanding to the general public or engaged in certain nonbank activities must file the FR Y-9C.

Proposed Revisions Related to Call Report Changes:

The Federal Reserve proposes to make the following revisions to the FR Y-9C to parallel proposed changes to the Call Report.

Charge-offs of Accrued Fees and Finance Charges on Credit Card Accounts

The Federal Reserve proposes to add the following items related to charge-offs of accrued fees and finance charges on credit card accounts.

1 Under certain circumstances defined in the General Instructions, BHCs under $150 million may be required to file the FR Y-9C.

(1) Add to Schedule HI-B, Part I, a new Memorandum item 3, "Uncollectable credit card fees and finance charges reversed against income (i.e., not included in charge-offs against the allowance for loan and lease losses)" to collect the amount of credit card fees and finance charges that the BHC reversed against either interest and fee income or a separate contra-asset account during the calendar year-to-date. This item would exclude credit card fees and finance charges reported as charge-offs against the allowance for loan and lease losses reported in Schedule HI-B, Part I, item 5.a, column A.
(2) Add to Schedule HI-B, Part II, a new Memorandum item 1, "Separate valuation allowance for uncollectable credit card fees and finance charges" to collect the amount of any valuation allowance or contra-asset account that the BHC maintains separate from the allowance for loan and lease losses to account for uncollectable credit card fees and finance charges. Because this amount is separate from the amount included in Schedule HC, item 4.c, and Schedule HI-B, Part II, item 7, this Memorandum item is only applicable for those BHCs that maintain an allowance or contra-asset account separate from the allowance for loan and lease losses.
(3) Add to Schedule HI-B, Part II, a new Memorandum item 2, "Amount of allowance for loan and lease losses attributable to credit card fees and finance charges," to collect the amount of the allowance for loan and lease losses that is attributable to outstanding credit card fees and finance charges. This amount is included in the amount reported in Schedule HC, item 4.c, and Schedule HI-B, Part II, item 7.
(4) Add to Schedule HC-C a new Memorandum item 4, "Outstanding credit card fees and finance charges," to collect the amount of fees and finance charges included in the amount of credit card receivables reported in Schedule HC-C, item 6.a.
(5) Add to Schedule HC-S, a new Memorandum item 4, "Outstanding credit card fees and finance charges," to collect the amount of fees and finance charges included in the credit card receivables that the BHC has reported as securitized and sold in Schedule HC-S, item 1, column C.

Many institutions engaged in credit card lending have adopted the practice of “purifying” charge-offs for financial reporting purposes. “Purification” refers to the practice of reversing uncollectable accrued fees and finance charges against earnings rather than accounting for them as charge-offs against the allowance for loan and lease losses. This practice obscures charge-off ratios (i.e., charge-offs divided by loan balances) because the charged-off amount does not include the accrued fees and finance charges while the aggregate loan balance does include them. Thus, the transparency of financial reports is diminished.

Further, the effect of this practice on credit card lending institutions' financial statements has become more material as the level of accrued but uncollected finance charges and fees have become more significant during the past several years. Most if not all of the accrued fees and finance charges reversed under the purification practice are included in credit card loan balances, or in other words, have been capitalized into the credit card loan balances.

The proposed additional items would collect information on reversals of credit card fees and finance charges that are not reported as charge-offs against the loan loss allowance. The proposed additions would also collect information on the outstanding amount of fees and finance charges included in credit card receivables and the related allowance, whether it is a component of the allowance for loan and lease losses or a separate contra-asset account. These new items would cover both bank holding company-owned portfolios and securitized portfolios of credit cards. Additionally, these proposed changes would include clarifications to the instructions for three items: Schedule HC-S, items 1, 5.a, and 8, column C, as discussed below.

The proposed changes would improve financial reporting transparency for losses on credit card accounts and permit users of FR Y-9C data to calculate loss rates for credit card loan receivables that are comparable across credit card lending institutions. Users of FR Y-9C data would have more complete loss information relating to credit card fees and finance charges that are written off as uncollectable. Furthermore, the changes would provide better information regarding the composition of and level of credit risk in credit card loan receivables that the institution manages both for its own account and in securitizations. The items regarding outstanding credit card fees and finance charges would provide useful information to facilitate the Federal Reserve's supervision of credit card lending activities.

The proposed new items would be completed only by those BHCs that**:**

(1) either individually or on a combined basis with their affiliated depository institutions report outstanding credit card receivables that exceed, in the aggregate, $500 million as of the report date. Outstanding credit card receivables will be measured as the sum of Schedule HC-C, Part I, item 6.a; Schedule HC-S, item 1, column C; and Schedule HC-S, item 6.a, column C.

OR

(2) are BHCs that on a consolidated basis are considered credit card specialty holding companies, defined as those that exceed 50 percent for the following two criteria:
    (a) credit card loans (HC-C, Part I, item 6.a) plus securitized and sold credit card loans (HCS, item 1, column C) divided by total loans (HC-C, item 12, column A) plus securitized and sold credit card loans;
    (b) total loans plus securitized and sold credit card loans divided by total assets (HC, item 12) plus securitized and sold credit card loans.

Breakdown of Seller-provided Credit Enhancements to the Bank's Securitization Structures

The Federal Reserve proposes to revise Schedule HC-S as follows.

(1) Revise item 2.b, "Maximum amount of credit exposure arising from recourse or other seller provided credit enhancements provided to structures reported in item 1 in the form of standby letters of credit, subordinated securities, and other enhancements," to collect the carrying value of "Subordinated securities and other residual interests" carried as on-balance-sheet assets that have been retained in connection with the securitization structures reported in Schedule HC-S, item 1, "Outstanding principal balance of assets sold and securitized with servicing retained or with recourse or other seller-provided credit enhancements."
(2) Add a new item 2.c, "Standby letters of credit and other enhancements," to collect the unused portion of standby letters of credit and the maximum contractual amount of recourse or other credit exposure not in the form of an on-balance-sheet asset that have

been provided or retained in connection with the securitization structures reported in Schedule HC-S, item 1.

(3) Clarify item 2.a, “”Retained interest-only strips,” by changing the item description to “Credit enhancing interest-only strips.”

These proposed revisions would distinguish between the amount of a BHC's seller-provided credit enhancements that are on-balance-sheet assets (other than credit-enhancing interest-only strips) and those that are not, and to better understand the types of credit support that BHCs are providing to their securitizations, including which types are typically used for different types of securitized loans. BHCs currently report the maximum amount of credit exposure from seller provided credit enhancements to securitization structures (other than credit-enhancing interest-only strips, which are reported separately) in Schedule HC-S, item 2.b. These credit enhancements include both on-balance-sheet assets (such as subordinated securities, spread accounts, and cash collateral accounts) and enhancements that are not assets (such as recourse liabilities and standby letters of credit). When credit enhancements are in the form of assets, credit losses on the securitized loans result in reduced cash inflows to the asset holder. In contrast, when seller-provided credit enhancements take some other form, cash outflows from the seller are required to cover credit losses on the securitized loans. In addition, under the risk-based capital standards that were revised as of January 1, 2002, seller-provided credit enhancements that are on-balance-sheet assets are "residual interests" subject to a dollar-for-dollar capital charge unless they qualify for the ratings-based approach. The capital charge for enhancements that are not assets generally is capped at 8 percent of the assets enhanced.

Income from Insurance Activities

The Federal Reserve proposes to split Schedule HI, item 5.h, "Insurance commissions and fees," into two new items, “Insurance and reinsurance underwriting income” and “Income from other insurance and reinsurance activities.” In new item 5.h.(1), "Insurance and reinsurance underwriting income," BHCs would report all income from insurance and reinsurance underwriting, including the amount of premiums earned by property-casualty insurers and the amount of premiums written by life and health insurers. This item would also include the BHC's proportionate share of the income or loss before extraordinary items and other adjustments from its investments in equity method investees that are principally engaged in insurance and reinsurance underwriting. In new item 5.h.(2), "Income from other insurance and reinsurance activities," BHCs would report income from insurance agency and brokerage operations (including sales of annuities and supplemental contracts); service charges, commissions, and fees from the sale of insurance (including credit life insurance), reinsurance, and annuities; and management fees from separate accounts, deferred annuities, and universal life products. This item would also include the BHC’s proportionate share of the income or loss before extraordinary items and other adjustments from its investments in equity method investees that are principally engaged insurance activities other than insurance underwriting. The risks arising from insurance underwriting are significantly different from those arising from other insurance activities. Given this distinction in risk, splitting the current single income statement item for insurance-related income into two items to separately identify underwriting income would enable the Federal Reserve to more clearly identify institutions engaged in underwriting and to better monitor the results of these underwriting activities.

Proposed Revisions to the FR Y-9C Instructions

(1) Modify the reporting instructions to include the "Provision for allocated transfer risk" with the "Provision for loan and lease losses" in item 4 of Schedule HI, Income Statement. In addition, in order for the end-of-period allowance in the reconciliation of the "Allowance for loan and lease losses" in Schedule HI-B, Part II, to equal the loan loss allowance on the balance sheet (Schedule HC, item 4.c), which excludes the "Allocated transfer risk reserve," the instructions for Schedule HI-B, Part II, item 6, "Adjustments," would also be revised to direct respondents to report as a negative number in item 6 the amount of any "Provision for allocated transfer risk" included in the amount of "Provision for loan and lease losses" reported in item 4 of the Income Statement (Schedule HI).

Prior to 2001, Schedule HI included a specific line item for "Provision for allocated transfer risk," but amounts were reported in this item only infrequently and only by a small number of BHCs. This separate item was removed from the face of the income statement in 2001 and respondents were instructed to include these provisions in "Other noninterest expense" on Schedule HI, item 7.d. However, in reviewing the continuing merits of this instructional change, the Federal Reserve has found that institutions exposed to transfer risk generally view these provisions more like provisions for loan losses than a noninterest expense.

(2) Revise the Glossary entry for “Trading Account” to provide guidance for regulatory reporting purposes on the use of the trading account designation for loans. Conforming changes would be made elsewhere in the instructions where appropriate. A new second paragraph of the "Trading Account" Glossary entry would read as follows:

“There is a rebuttable presumption that loans and leases (hereafter, loans) should not be reported as trading assets. In order to overcome this presumption for particular loans, a BHC must demonstrate, from the pattern and practice of its activity, that it is acquiring these loans principally for the purpose of selling them in the near term with the objective of generating profits on short-term differences in price. Thus, such loans are held for only a short period of time (generally not months or years). This presumption is not overcome if a BHC acquires loans (through origination or purchase) with the intent or expectation that they may or will be sold at some date in the future. In addition, loans acquired and held for securitization purposes should not be reported as trading assets, but should be reported as loans held for sale.”

(3) Modify Schedule HC-S, item 1, "Outstanding principal balance of assets sold and securitized by the reporting BHC with servicing retained or with recourse or other seller-provided credit enhancements" to add the following sentence to the instructions for this item: “For credit card receivables, include in column C any fees and finance charges capitalized into the credit card receivable balances that the reporting BHC has securitized and sold.”

(4) Modify Schedule HC-S, item 5.a, "Charge-offs" [on assets sold and securitized with servicing retained or with recourse or other seller-provided credit enhancements (calendar year-to-date)] to add the following sentence to the instructions for this item: "Include in column C charge-offs or reversals of uncollectable credit card fees and finance charges that had been capitalized into the credit card receivable balances that have been securitized and sold."

(5) Modify Schedule HC-S, item 8.a, "Charge-offs" [on loan amounts included in interests reported as securities in item 6.a (calendar year-to-date)] to add the following sentence to the instructions for this item: "Include in column C the amount of credit card fees and finance charges written off as uncollectable that were attributable to the credit card receivables included in ownership interests reported as securities in item 6.a, column C."

Other Proposed Revisions Not Directly Related to Call Report Changes

The following proposed revisions are not directly related to the proposed Call Report changes for March 2003. Some of these changes are proposed to provide greater consistency with current Call Report items that are not part of the March 2003 revisions.

Accelerated Filing Deadline

The Federal Reserve proposes to require the filing of FR Y-9C reports within 35 days after the quarter-end reporting date. This proposed change is consistent with the Call Report proposal to require all banks to file no later than 30 days after the quarter-end report date, effective with the June 30, 2003 reporting date, and the Security and Exchange Commission's (SEC's) final rule to accelerate the filing of quarterly reports from 45 days to 35 days after the quarter-end. In recognition of respondents' time and resource needs to modify reporting systems and review procedures, the proposed implementation date would be delayed until June 30, 2004.

The Federal Reserve seeks more timely filing of bank holding company information to obtain more immediate feedback about the risks and financial condition of these institutions, allowing the Federal Reserve to make evaluations and develop plans of action more quickly to address supervisory concerns. Accelerated disclosure of bank holding company information would also enhance data transparency and market discipline. Market discipline relies on market participants having timely information about the risks and financial condition of banking organizations. The FR Y-9C, in particular, is widely used by securities analysts, rating agencies, and large institutional investors as sources of bank holding company-specific data. Disclosure that increases transparency leads to more accurate market assessments of risk and value. This, in turn, should result in more effective market discipline on BHCs.

Schedule HI – Income Statement

The Federal Reserve proposes to revise Schedule HI as follows.

(1) Add two new items to the memoranda section, item 14, “Stock-based employee compensation expense (net of tax effects)” and item 15, “Stock-based employee compensation expense (net of tax effects) calculated for all awards under the fair value method.” Stock-based employee compensation plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer’s stock. Stock-based employee compensation is used by many BHCs as a mechanism to provide substantial compensation to executives. Information on both the stock options expense and the amount of stock options expense related to all awards under the fair value method would provide an indication of the magnitude and the speed with which options are recognized as a cost of doing business. The information collected would be used in the analysis of the quality of earnings and comparability of profitability across BHCs.

The Financial Accounting Standards Board (FASB) recently proposed amendments to the disclosure provisions of FASB Statement 123, “Accounting for Stock-Based Compensation” to require more prominent disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported results in both annual and interim financial statements. The proposed new items are captioned consistently with these disclosure requirements[2]. Currently; companies are not required to present stock option disclosures in interim financial statements. The proposed amendments prescribe transition provisions for companies that voluntarily adopt a fair value based method. For institutions choosing a fair value method, amendments to Statement 123 will be effective for financial statements with fiscal years ending after December 15, 2002.

(2) Modify the instructions for the Notes to the Income Statement to accommodate the collection of selected income information of large predecessor institutions for a reporting BHC engaged in a merger. The one-time reporting of this information would be event-driven and submitted only during the quarter in which the business combination(s) occur. The income statement items requested (26 items reported on Schedule HI) would refer to the financial performance of an acquired entity prior to a business combination, which otherwise would not be incorporated in the consolidated financial statements of the combined entity. Collection of predecessor information would be reported for acquired entities with total consolidated assets of $150 million or more. See Table 1 below for the list of items (pre-printed captions) to be reported on the Notes to the Income Statement with respective cross-references to comparable items reported on Schedule HI.

[2] See FASB Financial Accounting Series Exposure Draft, “Accounting for Stock-Based Compensation—Transition and Disclosure: an amendment of FASB Statement No. 123,” Section 3.j.(2) and Section 3.j.(3).

In January 2001, FASB Statement No. 141, “Business Combinations” took effect prescribing that all business combinations are to be accounted for by the purchase method which instructs that the operating results of the acquired entity are to be included in the income and expenses of the acquiring entity only from the date of acquisition.

The current lack of information in this area is a significant problem for analysts attempting to achieve consistent comparisons of BHC financial trends. Because predecessor company information is not currently captured in the FR Y-9C for BHCs involved in purchase transactions, analysts currently must extract data from SEC filings, when available, and through manual entry manipulate the pro forma data. In addition, all classifications (items) requested are not necessarily available in SEC filings. With the collection of new predecessor data the Federal Reserve analysis of BHC data and overall market transparency would be improved by incorporating more meaningful financial measures, especially those that relate to earnings performance.

Table 1		
Notes to the Income Statement Predecessor Financial Items		
FR Y-9 Description	**Schedule**	**Line Item Number**
Total interest income	HI	1h
Interest income on loans and leases	HI	1a1+1a2+1b
Interest income on investment securities	HI	1d1+1d2+1d3
Total interest expense	HI	2f
Interest expense on deposits	HI	2a1a+2a1b+2a1c+2a2
Net interest income	HI	3
Provision for loan losses	HI	4
Noninterest income	HI	5m
Income from fiduciary activities	HI	5a
Trading revenue	HI	5c
Investment banking, advisory, brokerage and underwriting fees and commissions	HI	5d
Venture capital revenue	HI	5e
Net securitization income	HI	5g
Insurance commissions and fees	HI	5h1+5h2
Realized gains (losses) on HTM and AFS	HI	6a+6b
Noninterest expense	HI	7e
Salaries and employee benefits	HI	7a
Goodwill impairment losses	HI	7c1
Income before taxes and extraordinary items	HI	8
Applicable income taxes	HI	9
Minority interest	HI	10
Extraordinary items, net	HI	12
Net income	HI	13
Cash dividends declared	HI-A	10+11
Net charge-offs	HI-B	9 (Col. A - Col. B)
Net interest income (fully taxable equivalent basis)	HI	M1

Schedule HC – Balance Sheet

The Federal Reserve proposes to modify the instructions for the Notes to the Balance Sheet to accommodate the collection of selected quarterly average information of large predecessor institutions for a reporting BHC engaged in a merger. The one-time reporting of this information would be event driven and only submitted during the quarter in which the business combination(s) occur. The balance sheet items requested (4 items reported on Schedule HC-K) would refer to the financial performance of an acquired entity prior to a business combination, which otherwise would not be incorporated in the consolidated financial statements of the combined entity. Collection of predecessor information would be reported for acquired entities with total consolidated assets of $150 million or more. See Table 2 below for the list of items (pre-printed captions) to be reported on the Notes to the Balance Sheet with respective cross-references to comparable items reported on Schedule HC-K.

Table 2
Notes to the Balance Sheet Predecessor Financial Items

FR Y-9 Item Description	Schedule	Line Item Number
Average loans and leases (net of unearned income)	HC-K	3
Average earning assets	HC-K	1+2+3+4a+4b
Average total consolidated assets	HC-K	5
Average Equity Capital	HC-K	11

Schedule HC-F – Other Assets

The Federal Reserve proposes to add a new item 5, "Cash surrender value of life insurance" to collect the amount of cash surrender value of life insurance that exceeds 25 percent of current item 5, "Other" assets. Items 5 and 6 would be renumbered as items 6 and 7. Many banking organizations have substantial holdings of life insurance that may expose the companies to credit, liquidity and market risks. In addition, the utility of these products could be adversely affected by tax law changes. Collection of this item is proposed to allow the Federal Reserve to identify companies with concentrations in these assets and to assess, where warranted, company management of these risks. This item is presently collected on the bank Call Report and on the FR Y-9SP when it represents more than 25 percent of "other assets." It will also be collected on the FR Y-9ES (ESOP) as of year-end 2002.

Schedule HC-M – Memoranda

The Federal Reserve proposes to revise item 20, "Net assets of broker-dealer subsidiaries engaged in underwriting or dealing securities pursuant to Section 4(k)(4)(E) of the Bank Holding Company Act as amended by the Gramm-Leach-Bliley Act" to collect additional items for balances due from related institutions and balances due to related institutions. This item is completed only by top-tier BHCs who have made an effective election to become a financial holding company. Item 20 would be recaptioned with the heading “Balances of broker-dealer subsidiaries engaged in underwriting or dealing in securities pursuant to Section 4(k)(4)(E) of the Bank Holding Company Act as amended by the Gramm-Leach-Bliley Act,” and “net assets” would be renumbered as item 20.a. The following new items would be added: under the heading 20.b, “Balances due from related institutions, gross” item 20.b.(1), “Due from the bank holding company (parent company only), gross,” item 20.b.(2), “Due from subsidiary banks of the bank holding company, gross,” and item 20.b.(3), “Due from nonbank subsidiaries of the bank holding company, gross;” under the heading 20.c, “Balances due to related institutions, gross” item 20.c.(1), “Due to bank holding company (parent company only), gross,” item 20.c.(2), “Due to subsidiary banks of the bank holding company, gross,” and item 20.c.(3), “Due to nonblank subsidiaries of the bank holding company, gross;” and item 20.d, “Intercompany liabilities reported in items 20.c.(1), 20.c.(2) and 20.c.(3) above that qualify as liabilities subordinated to claims of general creditors.”

The Federal Reserve proposes to collect these additional items to restore the Federal Reserve’s ability to monitor the potential impact of intercompany transactions as a source of funds to affiliate banks and BHCs, and the ability to monitor the degree to which financial transactions at the broker-dealer subsidiary are funded internally within the banking organization. In addition to eliminating the provisions of former section 20 of the Glass-Steagall Act, the Gramm-Leach-Bliley Act mandated a number of changes in the Federal Reserve’s supervision of broker-dealers, including Section 20 subsidiaries, affiliated with BHCs. The Federal Reserve was advised to rely, to the fullest extent possible, on the supervisory activities and regulatory reports required by functional regulators (in this instance the SEC and the self-regulatory organizations under its auspices).

The Federal Reserve has also ceased collection of the Financial Statements for a Bank Holding Company Subsidiary Engaged in Bank-Ineligible Securities Underwriting and Dealing (FR Y-20) collected from broker-dealers that operate under new authority granted to financial holding companies to engage in unlimited underwriting, dealing and market making in securities pursuant to section 4(k)(4)(E) of the BHC Act as amended by GLBA. Federal Reserve supervisors now rely upon the SEC Financial and Operational Combined Uniform Single report (FOCUS) report, internal management reports and publicly available financial reports for off-site monitoring the activities of these broker-dealers. However, none of these reports contain information formerly collected on the FR Y-20 for intercompany assets and liabilities.

By recapturing this vital intercompany financial data, supervisors would have an enhanced ability to monitor and understand changes in affiliated broker-dealer funding and capital structures and their effect on the banking organization. Also intercompany liabilities that are derived from subordinated debt agreements are considered capital under SEC net capital rules (Rule 15c3-1), and collection of proposed item 20.d (also formerly collected on the FR Y-20) would allow Federal Reserve to track this source of capital.

Schedule HC-N – Past Due and Nonaccrual Loans, Leases, and Other Assets

The Federal Reserve proposes to add the following two items to the memoranda section: item 7, “Additions to nonaccrual assets,” and item 8, “Nonaccrual assets sold during the quarter.” Although the overall quarter-to-quarter change in nonaccrual assets could be easily calculated based on end-of-period values, collection of information relating to inflows and outflows of nonaccrual loans would enhance the Federal Reserve System’s ability to track shifts in credit quality within a portfolio and their impact on an institution’s credit costs and earnings. In aggregate, the information provided would facilitate the evaluation of fundamental trends underlying a credit cycle. Data on the outflow of nonaccrual loans would further reveal alternative management approaches to the resolution of problem assets.

Information on new additions to the level of nonaccrual assets during the period would indicate the extent of erosion or improvement in a BHC’s portfolio. Aggregated data on the trend in new inflows of problem assets would aid in analyzing underlying credit cycle trends. For example, a slowdown in new inflows of problem assets may indicate an approaching peak level of nonperforming assets after the end of a recession.

Information on the volume of nonaccrual asset sales would enable the Federal Reserve System to track the growth of problem asset sales within an institution’s portfolio. The new data collection would provide further insight into a banking organization’s ability to manage credit risks and approaches in dealing with credit problems. In addition, the new data would lead to the identification of significant sales of nonaccrual or problem assets that have been a subject of supervisory and analytical interest. This interest is primarily oriented to the liquidity of the secondary markets in problem loans. Moreover, the information on problem loan sales would increase the Federal Reserve System’s understanding of the evolution of financial markets. In particular, the secondary market for distressed loan sales, an avenue that was not available to BHCs in the past, has become prevalent only in recent years.

Instructions

Instructional revisions and clarifications would be done in accordance with changes made to the Call Report instructions or will correspond to existing Call Report instructions. In addition, instructional revisions and clarifications would be made as necessary with respect to proposed revisions not directly related to the proposed Call Report changes for March 2003.

FR Y-9LP

The FR Y-9LP includes standardized financial statements filed quarterly on a parent company only basis from each BHC that files the FR Y-9C. In addition, for tiered bank holding companies, a separate FR Y-9LP must be filed for each lower tier BHC.

The Federal Reserve proposes to make the following changes to the FR Y-9LP regarding the accelerated filing deadline and information on nonbank subsidiaries.

Accelerated Filing Deadline

The Federal Reserve proposes to require the filing of FR Y-9LP reports within 35 days after the quarter-end reporting date. This proposed change is consistent with the proposed change to the FR Y-9C described above, with the Call Report proposal to require all banks to file no later than 30 days after the quarter-end report date, and with the SEC's final rule to accelerate the filing of quarterly reports from 45 days to 35 days after the quarter-end. In recognition of respondents' time and resource needs to modify reporting systems and review procedures, the proposed implementation date would be delayed until June 30, 2004.

Schedule PC-B – Memoranda

The Federal Reserve proposes to add two new subitems to item 15 to collect additional information on nonbank subsidiaries of top-tier BHCs, item 15.b, "Total combined loans and leases of nonbank subsidiaries," and 15.c, "Total aggregate operating revenue of nonbank subsidiaries." Current items 15.b through 15.f would be renumbered accordingly. Operating revenue would be defined as the sum of total interest income and total noninterest income (before deduction of expenses and extraordinary items.)

Under Federal Reserve supervision procedures, complex BHCs with assets of $1 billion or less are subject to more extensive reviews than noncomplex BHCs with assets of $1 billion or less. In particular, they are assigned complete BOPEC (Banks, Other nonbank subsidiaries, Parent Company, Earnings, Capital) ratings, while their noncomplex peers are assigned only composite ratings based on the condition of their lead depository institutions. The Federal Reserve identifies complex companies based on a number of factors, including the nature and scale of any nonbank activities. In order to assist to ensure that complexity designations are up to date and accurate, the Federal Reserve has monitored aggregate nonbank revenue and nonbank loans using data reported by nonbank subsidiaries on the Financial Statements of Nonbank Subsidiaries of Bank Holding Companies (FR Y-11). Recent revisions made to these reporting forms will significantly reduce the panel of companies filing detailed (or any) Y-11s on an annual basis, eliminating a key source of data for identifying complex BHCs.

Instructions

The FR Y-9LP instructions would be revised and clarified in accordance with changes made to the FR Y-9C instructions.

FR Y-9SP

The FR Y-9SP is a parent company only financial statement filed by smaller BHCs. Respondents include one bank holding companies with total consolidated assets of less than $150 million, and multibank holding companies with total consolidated assets of less than $150 million that meet certain other criteria. This form is a simplified or abbreviated version of the more extensive parent company only financial statement for large BHCs (FR Y-9LP). This report is designed to obtain basic balance sheet and income information for the parent company, information on intangible assets, and information on intercompany transactions.

The Federal Reserve proposes to make the following changes to the FR Y-9SP in a manner consistent with the previously described changes to the FR Y-9C or FR Y-9LP.

Accelerated Filing Deadline

The Federal Reserve proposes to require the filing of FR Y-9SP reports within 35 days after the June 30 and December 31 reporting dates. This proposed change is consistent with the proposed change to the FR Y-9C described above, with the Call Report proposal to require all banks to file no later than 30 days after the quarter-end report date, and with the SEC's final rule to accelerate the filing of quarterly reports from 45 days to 35 days after the quarter-end. In recognition of respondents' time and resource needs to modify reporting systems and review procedures, the proposed implementation date would be delayed until June 30, 2004.

Balance Sheet

The Federal Reserve proposes to add two new subitems to Memorandum item 17 to collect additional information on top-tier BHC nonbank subsidiaries, item 17.b, "Total combined loans and leases of nonbank subsidiaries," and 17.c, "Total aggregate operating revenue of nonbank subsidiaries." Current items 17.b through 17.d would be renumbered accordingly. Operating revenue would be defined as the sum of total interest income and total noninterest income (before deduction of expenses and extraordinary items.) As described above for the proposed addition of similar items to the FR Y-9LP, the Federal Reserve proposes to add these items to the FR Y-9SP to retain information formerly available on the Annual Financial Statements of Nonbank Subsidiaries of Bank Holding Companies (FR Y-11I) needed to identify small complex BHCs.

FR Y-9CS

The FR Y-9CS is a free form supplement that may be utilized to collect any additional information deemed to be critical and needed in an expedited manner. It is intended to supplement the FR Y-9C and FR Y-9SP reports. There are no revisions proposed to this report.

FR Y-9ES

The FR Y-9ES is a financial statement filed annually by employee stock ownership plans (ESOPs) that are also bank holding companies (BHCs) on their benefit plan activities. This report consists of four schedules: Statement of Changes in Net Assets Available for Benefits, Statement of Net Assets Available for Benefits, Memoranda, and Notes to the Financial Statements. There are no revisions proposed to this report.

Instructions

The FR Y-9SP instructions would be revised and clarified in accordance with changes made to the FR Y-9C instructions.

Reporting Panel

There are no revisions proposed to the reporting panels of the reports.

Frequency

There are no changes proposed to the reporting frequency of the reports. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

Time Schedule for Information Collection

The FR Y-9C and FR Y-9LP are reported quarterly as of the end of March, June, September, and December. The FR Y-9SP is reported semiannually as of the end of June and December. The FR Y-9C, FR Y-9-LP and FR Y-9SP reports must be submitted to the appropriate Federal Reserve Bank within forty-five days after the date of the report. Under the proposed revisions, this date would be accelerated to thirty-five days after the report date, effective with the June 30, 2004, reporting date. The annual FR Y-9ES is collected as of December 31 and submitted to the Federal Reserve Banks by July 31, unless an extension is granted for filing by October 15.

The data from the FR Y-9 series of reports that are not given confidential treatment are available to the public on the FFIEC website (www.ffiec.gov/nic) and through the National Technical Information Service (NTIS).

Legal Status

The Board's Legal Division has determined that these reports are authorized by Section 5 (c) of the Bank Holding Company Act [12 U.S.C. 1844(c)].

Overall, the Federal Reserve does not consider the data in these reports to be confidential. However, a BHC may request confidential treatment pursuant to section (b)(4) of the Freedom of Information Act [5 U.S.C. 552(b)(4)].

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimates of Respondent Burden

The current estimated annual burden for the current FR Y-9 reports is 337,290 hours, as shown in the following table. The proposed estimated annual burden for the revised FR Y-9 reports is 349,800 hours, an increase of 12,510 hours. The increase in burden hours is attributed to increasing the number of line items and to making the reporting forms consistent with other reporting requirements.

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
<u>*Current*</u>				
FR Y-9C	1,959	4	33.98	266,267
FR Y-9LP	2,320	4	4.55	42,224
FR Y-9SP	3,541	2	3.89	27,549
FR Y-9ES	100	1	0.50	50
FR Y-9CS	600	4	0.50	1,200
total				337,290
<u>*Proposed*</u>				
FR Y-9C	1,959	4	34.95	273,868
FR Y-9LP	2,320	4	4.85	45,008
FR Y-9SP	3,541	2	4.19	29,674
FR Y-9ES	100	1	0.50	50
FR Y-9CS	600	4	0.50	1,200
total				349,800
change				+12,510

Based on an average hourly cost of $20, the estimated current annual cost to the public is $6,745,800, and the estimated annual cost to the public for filing the proposed reports would be $6,996,000.

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System for collecting and processing the FR Y-9C, FR Y-9LP, FR Y-9SP, and FR Y-9ES is estimated to be $2,146,774 annually.

Attachment